

Raytheon Technologies Corp. (RTX)

Updated July 28th, 2020 by Eli Inkrot

Key Metrics

Current Price:	\$61	5 Year CAGR Estimate:	10.8%	Market Cap:	\$92 B
Fair Value Price:	\$64	5 Year Growth Estimate:	7.0%	Ex-Dividend Date:	08/13/20
% Fair Value:	95%	5 Year Valuation Multiple Estimate:	1.0%	Dividend Payment Date:	09/10/20
Dividend Yield:	3.1%	5 Year Price Target	\$90	Years Of Dividend Growth:	26
Dividend Risk Score:	B	Retirement Suitability Score:	B	Last Dividend Increase:	N/A

Overview & Current Events

Raytheon Technologies ("RTX") was created on April 3rd, 2020 after the completion of the merger between Raytheon (previous ticker: RTN) and United Technologies (previous ticker: UTX), following United Technologies' spin-offs of its Carrier ("CARR") and Otis ("OTIS") businesses. The combined business, trading with a \$92 billion market cap and headquartered in Waltham, MA, is one the largest aerospace and defense companies in the world with \$74 billion in 2019 sales and a global team of 195,000 employees, including 60,000 engineers and scientists. The company has four segments: Collins Aerospace Systems, Pratt & Whitney, Raytheon Intelligence & Space, and Raytheon Missiles & Defense, which generated 2019 net sales of \$26 billion, \$21 billion, \$15 billion and \$16 billion respectively.

On June 8th, 2020 Raytheon Technologies announced a \$0.475 quarterly dividend.

On July 28th, 2020 Raytheon Technologies released Q2 2020 results for the period ending June 30th, 2020. This was the first quarter of reporting all four segments together as a combined business. Sales totaled \$14.1 billion, including a -36% decline in the Collins Aerospace segment and a -32% decline in the Pratt & Whitney segment, as the COVID-19 pandemic weighed on results. Compared to 2019 sales were up, but this is a skewed metric as the company no longer includes the Otis and Carrier segments but does include the Raytheon Intelligence and Raytheon Missiles segments after the spin-offs and subsequent merger. Reported earnings-per-share equaled -\$2.56, but this included -\$2.96 in charges related to acquisition accounting adjustments and the impairment of Collins Aerospace goodwill and intangibles. On an adjusted basis, earnings-per-share equaled \$0.40.

Bookings at the end of the quarter equaled \$158.7 billion, of which \$85.6 billion was from commercial aerospace and \$73.1 billion was from defense.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$4.74	\$5.49	\$5.34	\$6.21	\$6.82	\$6.29	\$6.61	\$6.60	\$7.61	\$8.26	\$4.00	\$5.61
DPS	\$1.70	\$1.87	\$2.03	\$2.20	\$2.36	\$2.56	\$2.62	\$2.72	\$2.84	\$2.94	\$1.90	\$2.66
Shares¹	921	907	919	917	909	838	809	799	861	864	1,500	1,500

Note that we have elected to show United Technologies' history in the table above, as 57% of the new business is now owned by legacy UTX shareholders. However, the company is much different today with the merger and spin-offs. With that being said, both United Technologies and Raytheon have put together solid operating records. In the last decade United Technologies grew earnings-per-share by an average rate of 7.2%, while increasing its dividend for over 25 years. Meanwhile, Raytheon grew earnings-per-share by 9.3% annually while increasing its dividend for 15 consecutive years. Moving forward we anticipate solid growth to continue, forecasting 7% growth over the intermediate term. This takes into account the strong history of the underlying operating businesses, along with the idea of growth becoming more difficult given the size of the business along with the recent uncertainty related to the worldwide COVID-19 pandemic.

We are forecasting \$4 in underlying earnings-per-share power, based on ~\$70 billion in sales and an ~8.5% net profit margin (in-line with the companies' past) to go along with an increased share count. This could be too ambitious if a

¹ In millions.

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global recession lingers, but we are enthused by the company's backlog and resiliency in lesser times. With a \$0.475 quarterly dividend declared, this implies a payout ratio just under 50%.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	15.0	14.6	14.7	16	16.4	17.0	15.3	17.7	16.8	16.1	15.2	16.0
Avg. Yld.	2.4%	2.3%	2.6%	2.2%	2.1%	2.4%	2.6%	2.3%	2.2%	2.2%	3.1%	3.0%

Once again note that we are using the history of United Technologies, which has traded with an average P/E ratio of about 16 times earnings over the past decade. We believe this is a fair starting multiple, considering the quality and growth prospects of the firm. With shares trading around 15 times earnings, this implies a small valuation tailwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	36%	34%	38%	35%	35%	41%	40%	41%	37%	36%	48%	48%

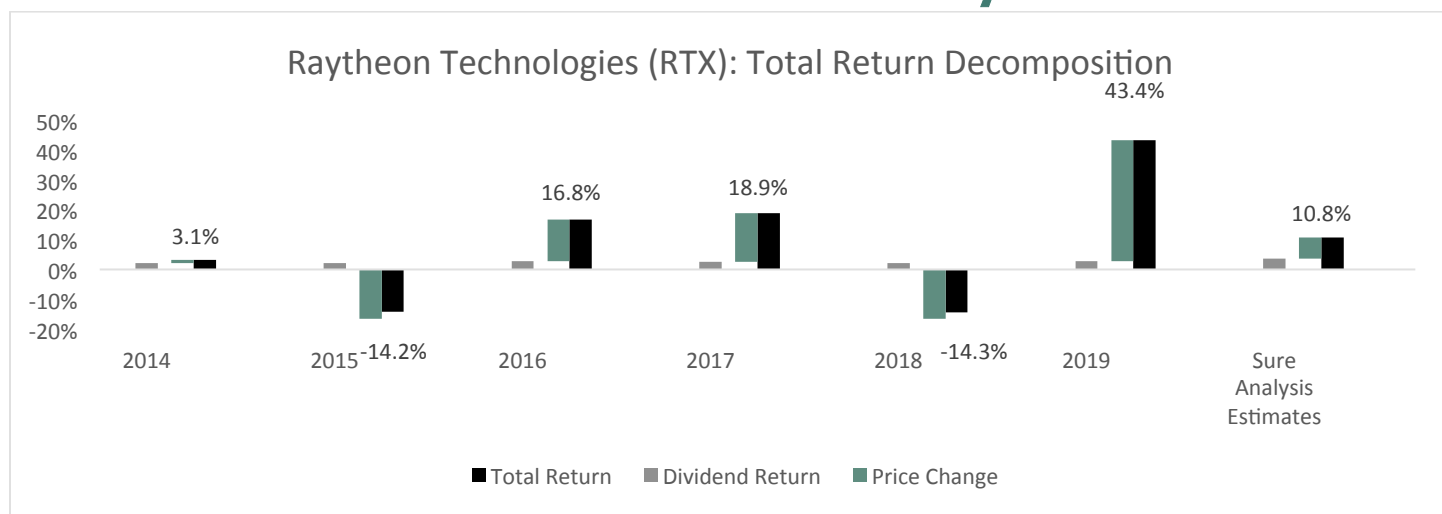
Both United Technologies and Raytheon showed tremendous resiliency during the last recession, with UTX posting \$4.90, \$4.12, \$4.74 and \$5.49 in earnings-per-share during the 2008 through 2011 timeframe, while Raytheon increased earnings every year during the recession. Moreover, both companies kept increasing their dividends during this period.

As of the most recent report, Raytheon Technologies held \$7.0 billion in cash, \$42.3 billion in current assets and \$161.5 billion in total assets against \$35.3 billion in current liabilities and \$92.6 billion in total liabilities. Long-term debt stood at \$31.2 billion compared to ~\$6 billion in underlying earnings power.

Final Thoughts & Recommendation

Shares are up marginally since our last update. There is uncertainty surrounding the new RTX, related to how the merged company will operate along with the global pandemic. However, we are enthused on a number of fronts, including the storied histories of the companies, the resilient businesses and tremendous backlog. We are forecasting 10.8% annual return potential stemming from 7% growth, a 3.21% dividend yield and a small valuation tailwind. Shares continue to earn a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	52,275	55,754	57,708	56,600	57,900	56,098	57,244	59,837	66,501	77,046
Gross Profit	14,321	15,385	15,555	16,132	17,002	15,667	15,773	15,636	16,516	19,981
Gross Margin	27.4%	27.6%	27.0%	28.5%	29.4%	27.9%	27.6%	26.1%	24.8%	25.9%
SG&A Exp.	5,798	6,161	6,452	6,364	6,172	5,886	5,958	6,429	7,066	8,521
D&A Exp.	1,300	1,263	1,524	1,735	1,820	1,863	1,962	2,140	2,433	3,783
Operating Profit	6,898	7,846	7,684	8,549	9,593	7,291	8,221	8,138	8,553	8,966
Op. Margin	13.2%	14.1%	13.3%	15.1%	16.6%	13.0%	14.4%	13.6%	12.9%	11.6%
Net Profit	4,373	4,979	5,130	5,721	6,220	7,608	5,055	4,552	5,269	5,537
Net Margin	8.4%	8.9%	8.9%	10.1%	10.7%	13.6%	8.8%	7.6%	7.9%	7.2%
Free Cash Flow	5,068	5,661	3,714	4,586	5,134	4,294	1,793	3,237	4,020	6,276
Income Tax	1,725	2,134	1,711	1,999	2,244	2,111	1,697	2,843	2,626	2,295

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	58,493	61,452	89,409	90,594	91,206	87,484	89,706	96,920	134,211	139,716
Cash & Equivalents	4,083	5,960	4,819	4,619	5,229	7,075	7,157	8,985	6,152	7,378
Acc. Receivable	8,925	9,546	11,099	11,458	10,448	10,653	11,481	12,595	14,271	13,524
Inventories	7,766	7,797	9,537	10,330	7,642	8,135	8,704	9,881	10,083	10,950
Goodwill & Int.	21,781	21,861	42,990	43,689	42,976	42,904	42,743	43,793	74,536	74,109
Total Liabilities	35,844	38,632	62,340	57,375	58,642	58,640	60,537	65,499	93,601	95,485
Accounts Payable	5,206	5,570	6,431	6,965	6,250	6,875	7,483	9,579	11,080	10,809
Long-Term Debt	10,289	10,260	23,221	20,241	19,701	20,425	23,901	27,485	45,537	43,648
Total Equity	21,385	21,880	25,914	31,866	31,213	27,358	27,579	29,610	38,446	41,774
D/E Ratio	0.48	0.47	0.90	0.64	0.63	0.75	0.87	0.93	1.18	1.04

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	7.7%	8.3%	6.8%	6.4%	6.8%	8.5%	5.7%	4.9%	4.6%	4.0%
Return on Equity	21.1%	23.0%	21.5%	19.8%	19.7%	26.0%	18.4%	15.9%	15.5%	13.8%
ROIC	13.7%	15.1%	12.3%	11.0%	11.8%	15.0%	9.9%	8.1%	7.3%	6.4%
Shares Out.	921	907	919	917	909	838	809	799	795	864
Revenue/Share	56.65	61.48	63.65	61.85	63.51	63.52	69.29	74.88	82.09	89.18
FCF/Share	5.49	6.24	4.10	5.01	5.63	4.86	2.17	4.05	4.96	7.26

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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